GENERAL PRECISION EQUIPMENT CORPORATION • 1965 ANNUAL REPORT

# GENERAL PRECISION EQUIPMENT CORPORATION
## 1965 ANNUAL REPORT

**Contents**

| Highlights | 1965 | 1964 | 1963 | 1962 | 1961 |
|---|---|---|---|---|---|
| Net sales | $240,571,990 | $219,465,962 | $217,891,583 | $222,862,125 | $234,620,431 |
| Income before federal income taxes, minority interest and goodwill amortization | 9,865,483 | 6,682,763 | 5,316,260 | 9,781,276 | 11,617,361 |
| Net income | 5,086,728 | 3,774,991 | 2,762,488 | 4,373,504 | 5,321,108 |
| Per common share | 2.87 | 2.06 | 1.42 | 2.40 | 3.10 |
| Extraordinary gain on sale of property | — | — | — | — | 545,258 |
| Charges to earned surplus, net, principally relating to business-computer operations | — | 5,500,000 | — | 3,600,000 | — |
| Dividends per common share | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |
| **Year-End Position** | | | | | |
| Working capital | $ 69,280,138 | $ 65,676,393 | $ 72,812,703 | $ 81,059,159 | $ 81,891,534 |
| Common stock equity | 68,235,225 | 65,496,475 | 69,863,246 | 69,462,880 | 71,064,005 |
| Equity per common share | 41.79 | 40.10 | 42.52 | 42.28 | 43.26 |
| Number of shares of common stock outstanding | *1,632,801 | *1,633,201 | 1,643,101 | 1,643,101 | 1,642,821 |

*Net of shares held in treasury.

# To The Stockholders:

### Earnings, Sales, Backlog

We are pleased to report that a substantial improvement was achieved in almost every area of operations during 1965.

Net income of $5,086,728, equivalent to $2.87 per share of common stock after preferred and preference dividend requirements, represents an improvement of more than one-third over earnings in 1964 of $3,774,991 or $2.06 per share.

Sales rose to $240,571,990, an increase of 10% over the prior year. Non-government business grew to 27.5% of the total, or $66,000,000, from $55,000,000 or 25% of the total in 1964. Sales of simulation and training equipment were at record highs. Demand for photographic products and instructional materials increased and the acquisition of Tele-Signal Corporation added to sales and earnings as expected. Export shipments and revenues received from overseas licensees and affiliates reached a new high.

New business received in 1965 contributed to a backlog of unfilled orders at year-end of $214,000,000, an increase of $33,000,000 over the backlog at December 31, 1964. The government business portion of the backlog was $158,000,000 and it was not influenced significantly by the military build-up in Viet Nam.

### Dividends

The Corporation has paid dividends on its common stock for thirty consecutive years. In 1965, as in the previous four years, four dividends of 30 cents per common share were paid. Also, in 1965, regular quarterly dividends were paid on the outstanding $4.75 cumulative preferred and the $1.60 cumulative convertible preference stocks. Total of all dividends paid for 1965 was $2,364,111.

In the opinion of counsel, dividends paid by the Corporation in 1965 should be treated, for federal income tax purposes, as paid from other than earnings and profits, and stockholders should, as in the past, apply dividends to reduce the tax cost of their stock. If the dividends received are in excess of such tax cost, the excess is taxable in the same manner as a gain from sale of the stock.

### Financial Statements

The comparative consolidated financial statements for the Corporation for the years 1965 and 1964 are found starting on page 12.

At year-end, 1965, net working capital (current assets less current liabilities) rose to $69,280,138 from $65,676,393, and the current ratio (current assets to current liabilities) was 2.5 to 1.

A revolving credit agreement with several banks whereby the Corporation may, upon request, obtain short-term loans up to a maximum of $40,000,000 was extended to December 31, 1967. Loans aggregating $17,000,000 were outstanding under the agreement at December 31, 1965.

In accordance with the previously announced decision to concentrate computer activities in military, space and other special applications markets, the remaining business-computer operations of General Precision, Inc. were sold during the year to Control Data Corporation. This transaction had no effect on 1965 earnings.

### Steps for Further Growth—1965

The principal markets served by your Corporation's subsidiaries are national defense and space exploration, industrial products and services, and education. Growth was attained during the year in each of these markets through intensified sales efforts and the introduction of new products. To stimulate further sales growth, several important steps were taken.

1. Early in the year, negotiations were completed for the acquisition of Tele-Signal Corporation, a small but growing manufacturer of data communications products. Its customers include world-wide communications companies, the Department of Defense (DOD) and National Aeronautics and Space Administration (NASA). During the year international acceptance of its products was emphasized when a leading British-based communications company was licensed to make and sell Tele-Signal equipment.

2. The organization, early in 1965, of Ocean Systems, Inc. with Union Carbide Corporation (as described in last year's annual report), provided an advantageous entry into the oceanographic field, although no contribution to profits from this operation is expected for some time.

3. An optical manufacturing facility was purchased to augment Graflex, Inc.'s audiovisual products. In addi-

tion, several promising new audio-visual products were introduced.

4. The business of the Riverdale, Maryland, plant of ACF Industries' Electronics Division was purchased by General Precision, Inc. Through this acquisition the company added patents, know-how and a distinguished team of scientists and engineers skilled in the design and production of training equipment in the fields of anti-submarine warfare and missile firing.

5. To meet the requirements of General Precision/Link's simulation business, a new plant of 110,000 square feet was built in Binghamton, N. Y., and was recently occupied.

With the addition of this plant and the Riverdale, Maryland, plant of 250,000 square feet, facilities available in the Corporation now total more than 3,000,000 square feet, and there are more than 15,000 people engaged in operations at nineteen major plant-locations in this country and abroad. The added facilities and further diversification have increased the capabilities and potential of the Corporation's subsidiaries to serve their government, educational and industrial customers.

## Steps for Further Growth—1966

Earlier this year, the Boards of Directors of your Corporation and Controls Company of America approved a proposal for the merger of Controls Company into your Corporation through the transfer of the Controls Company business and assets to a new subsidiary of the Corporation which will assume the Controls Company of America name. Your approval will be asked at the annual stockholders meeting scheduled for May 18. Stockholders of Controls Company of America will meet on May 17 to vote on the same matter.

Information of this latest move in your Corporation's diversification program was included in the preliminary statement of 1965 results that was sent to you about February 10. Full details, including information on Controls Company of America, will be contained in the proxy statement that you will receive in advance of the annual meeting.

In late February, the U.S. Office of Economic Opportunity's Job Corps announced that a contract was being negotiated with a subsidiary of the Corporation to operate a Job Corps Center at Morganfield, Kentucky. This contract will mark another step in the plans of the Corporation to expand the educational talents and experience of subsidiary companies into new endeavors.

## Board Changes

Mr. Robert L. Clarkson, having reached the retirement age for directors of the Corporation, in accordance with corporate policy will not stand for re-election to the Board this year.

As a director, Mr. Clarkson has outstandingly and devotedly served the interests of the Corporation and its stockholders for thirty years. During that period his valued counsel was very helpful in shaping the course of the Corporation in its transition into a major electronics company.

We have been fortunate in adding to the Board of Directors during 1965 Mr. Arnold R. LaForce, president of Central Securities Corporation, and Mr. Philip LeBoutillier, Jr., vice president of Clark, Dodge & Co., Inc. Their long experience in corporate affairs constitutes a valuable addition to the Board.

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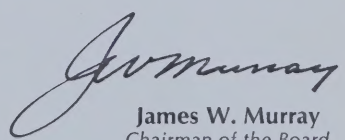
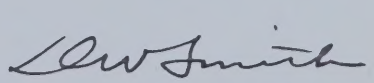
The record of achievement of the past year, as detailed in this report reflects the energy and resourcefulness of the people of the Corporation and its subsidiaries. On behalf of the Board of Directors, it is with appreciation that we acknowledge their contribution. We are confident that the spirit and skills of the entire organization will contribute to the further progress and growth we look forward to in 1966.

Stockholders of record of the Corporation now number 8,720. We wish to thank all the stockholders for their strong support and continued interest in the Corporation during the past year.



**James W. Murray**
*Chairman of the Board*



**Donald W. Smith**
*President*

March 8, 1966

# National Defense and Space Exploration

The Corporation's subsidiaries continued to participate in a number of those programs which are important to the maintenance of the nation's position as a free-world leader.

## GENERAL PRECISION/AEROSPACE

General Precision, Inc.'s Aerospace Group, including its GPL, Kearfott Products and Kearfott Systems Divisions and the Aerospace Research Center, again demonstrated its capability to provide outstanding navigation, guidance and control equipment for manned aircraft, missiles and space vehicles.

### A variety of systems on a growing number of programs

Deliveries continued of navigation computers for the C-141, A4E, and other aircraft, of doppler radar navigation systems for several types of anti-submarine warfare (ASW) aircraft, of guidance equipment for the SUBROC rocket-assisted ASW missile and Centaur space vehicle, and of hydraulic actuators used to steer the Pershing missile. New funding extended production into 1966 for each of these important programs.

New contracts were received for navigation computers for the U.S. Navy's newest plane, the A7A, for hydraulic actuators for helicopters, aircraft and spacecraft and for GPL Division's doppler systems for Australian and Danish planes.

Work continued on inertial guidance equipment for ballistic missile re-entry vehicles. The company has provided equipment to three major contractors for Air Force re-entry programs and a substantial new contract from one of these companies was received late in the year.

Stellar inertial guidance equipment developed for the Air Force's stellar acquisition flight feasibility (STAFF) test program by Kearfott Systems Division performed outstandingly in flights. It proved that it can acquire and track one or two stars in daylight during the critical boost phase of a missile's flight, providing refined accuracies to missiles. Development of the system is continuing.

### Precision components and subsystems business continues strong

Complementing the company's systems capabilities is a broad line of precision components and subsystems, fields in which the Kearfott Divisions are leading manufacturers and innovators. Production of gyroscopes continued for space exploration programs, for the Phoenix missile, the major armament on the F-111B aircraft and for the Titan III, designated by the Air Force as its standard space booster. Deliveries were made of components for the auto-pilot system on the F4C aircraft and new funding was received for data annotation systems used in other planes. Work on these products and programs will continue in 1966.

Work began on several potentially significant new contracts. The company is providing electro-luminescent indicators for the Lunar Excursion Module (LEM), marking its entry into this product field and its gyros are now slated for use on the S2 series of ASW planes.

Important components sales in international markets include gyros and accelerometers for new British Royal Air Force supersonic fighters and British-made VTOL aircraft, and precision components for the fire control system of the West German government's Leopard tank.

The company's Gyro-compassing Attitude Reference System (GARS), which includes components already designed for its low-cost inertial guidance system, is now being built for the Navy. One version of this system is slated for high-performance aircraft. A second is being coupled to a GPL doppler system to provide a high-performance navigation system for advanced aircraft and helicopters.

## GENERAL PRECISION/LINK

General Precision, Inc.'s Link Group had an outstandingly successful year. Deliveries of simulators for military aircraft and space vehicles rose to an all-time high. Shipments of video and photo data processing equipment and ordnance devices also increased.

### Pilot-training simulator business growing

The availability of the new GP-4 digital computer was instrumental in winning a contract to build the first mission simulator for the F-111A variable-wing supersonic aircraft. Early in 1966, a follow-on contract was awarded for additional simulators to be delivered in 1967.

Initial contracts were won for instrument flight trainers which will use a single computer to operate as many as four cockpits. A contract for additional tactics simulators for the A7A aircraft was also awarded the company.

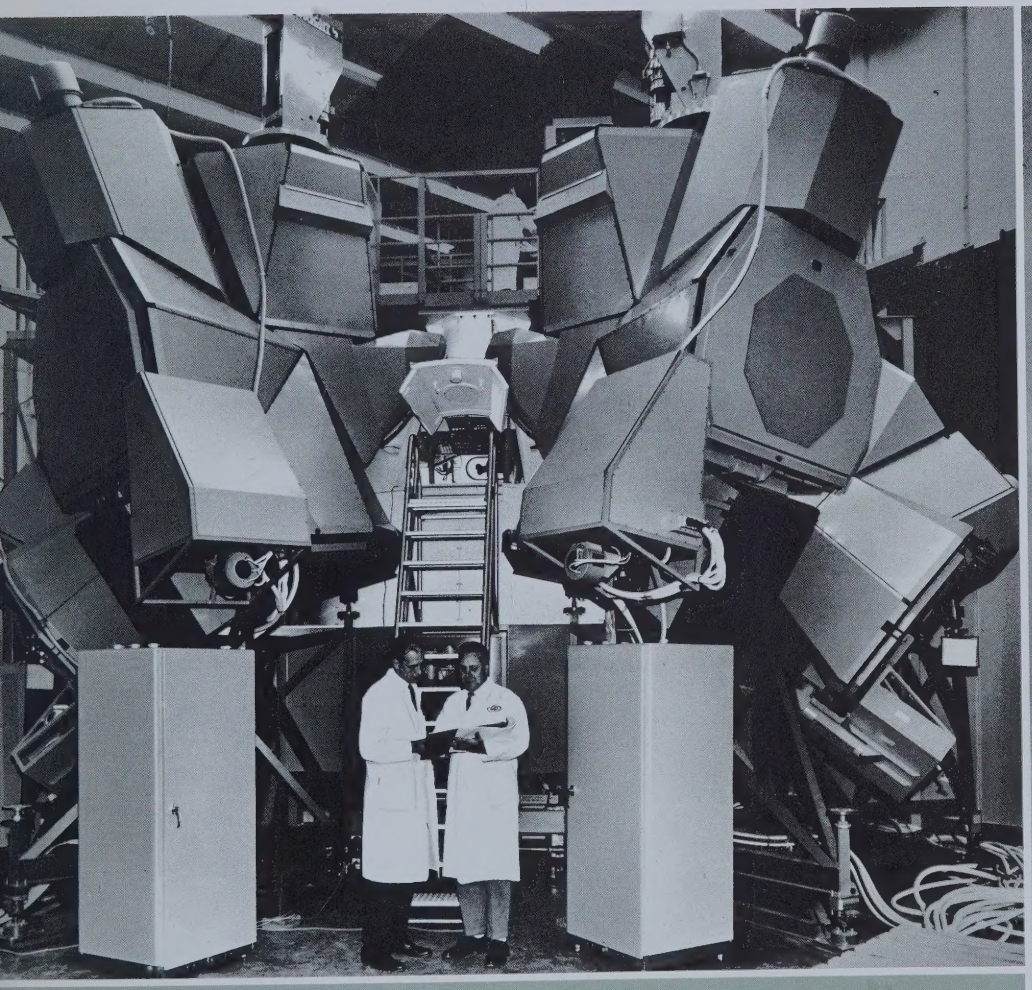
Deliveries of F4C and RF4C aircraft weapon system trainers continued. Follow-on contracts, including one for the F4D aircraft, were received covering production of these simulators into 1967.

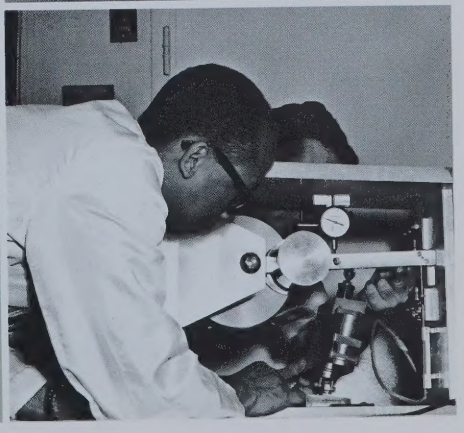
Other deliveries in 1965 included simulators for the NATO "Atlantique" aircraft, C-141 jet transports and Air Force basic jet trainers.

### Astronaut-training simulators

As man comes closer to exploring the moon and space beyond, the expertise of our simulation scientists, engineers and manufacturing people becomes more important since simulation provides the most thorough means of acquainting the astronauts with their spacecraft and mission. Work is continuing at General Precision/Link on the development and construction of systems that simulate the entire Apollo moon-landing mission, including rendezvous and return to earth.

A milestone in the manned space program was passed with the shipment in the last quarter of the year of the first Apollo mission simulator to NASA's Manned Spacecraft Center in Houston, Texas. The second unit, which will be located at Cape Kennedy, Florida, is now being built, as are mission simulators for the LEM. The latter units will provide

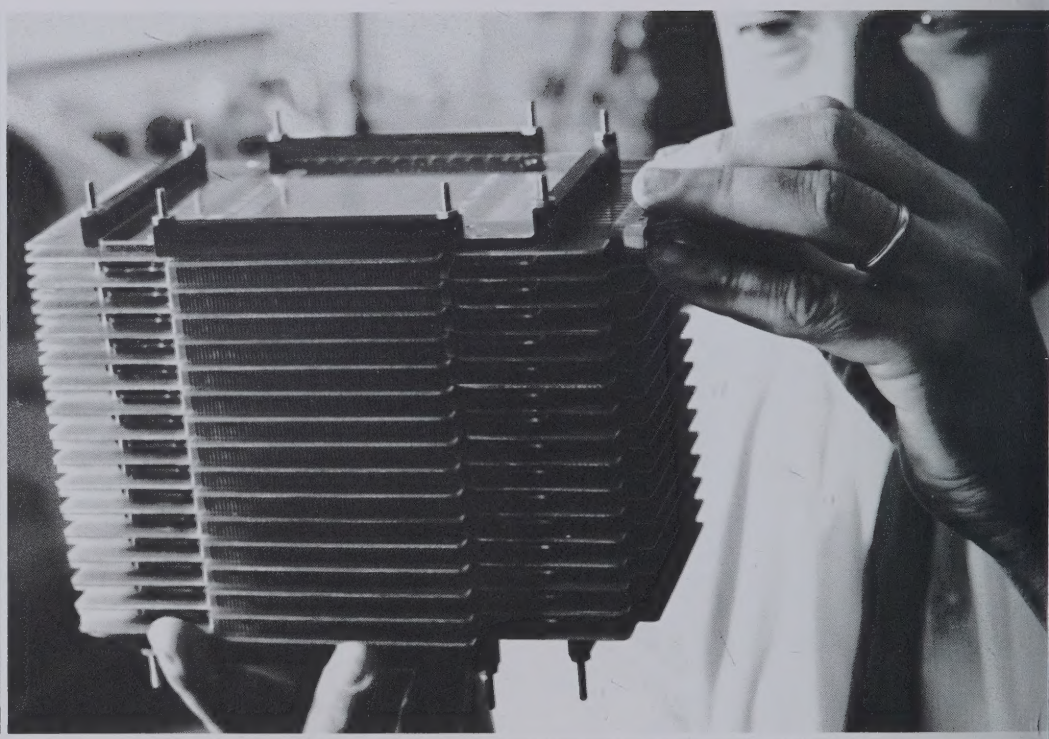




Above: **First "trips to the moon" will be made by astronauts in this Apollo Mission Simulator built by Link Group. This equipment was shipped to NASA's Manned Spacecraft Center, Houston, Texas.**

Above, right: **General Precision/Aerospace's stellar-inertial guidance equipment performed outstandingly in U.S. Air Force test program. The new-generation system provides refined accuracies to missiles whether or not launch site is precisely known.**

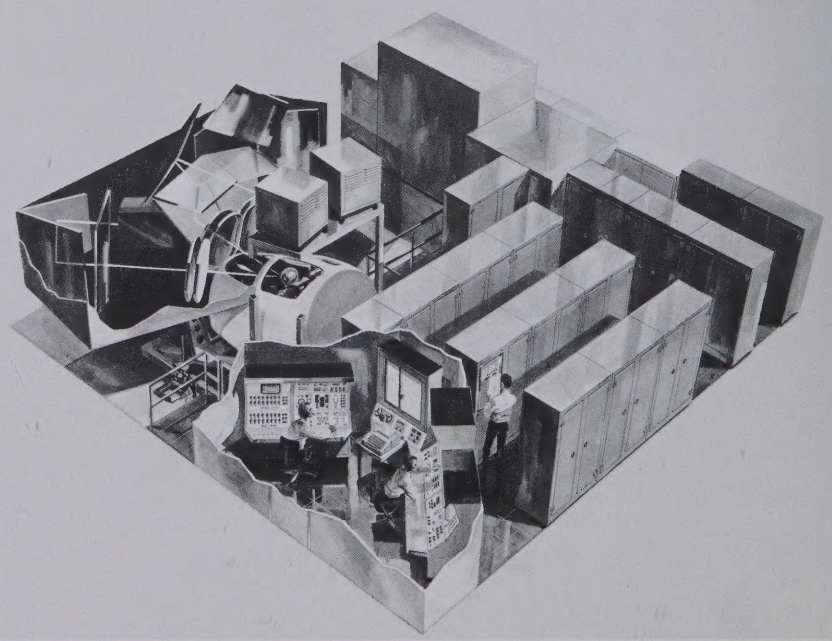
Right: **Kearfott actuators solve many control problems in missiles, aircraft and space vehicles. Under test is electromechanical actuator used in NASA's Lunar Orbiter.**



Above: **GPL's new mobile tactical landing radar (TALAR®) is designed for advanced-area landing fields, providing an accurate means of guiding aircraft on an instrument approach path.**

Above right: **There are 16 woven-wire, high-speed, lightweight memory planes in this stack, built by Librascope to perform complex data processing tasks in airborne computers.**

Right: **Military pilots will "fly" complete F-111A aircraft missions in this new Link simulator which uses the company's new GP-4 digital computer.**



simulation and training in duplicates of the actual moon landing vehicle.

### Computer programming business good

The growth of programming projects has required additional facilities and personnel at the Computation Center which was organized in support of the expanding simulation business. In addition to programming the entire Apollo and LEM simulators, the center is involved in satellite communications, reconnaissance systems, meteorological programs and other special computer studies.

### Data display equipment assists in space programs

The company participated prominently in two of the year's most significant space achievements. On March 24, 1965 its system for electronic scan conversion made it possible for millions of Americans to see on television the actual photographs of the moon's surface being taken by NASA's Ranger 9 spacecraft as it sped toward impact on the moon.

In July, a series of electronic signals were returned to earth a distance of 134 to 150 million miles from the Mariner 4 spacecraft as it passed the planet Mars. These signals were converted by the company's Video Film Converter into the remarkably clear photographs which received world-wide acclaim.

### Ordnance devices—promising new business

New ordnance devices (small packages of high explosives that provide carefully calculated bursts of energy to perform critical tasks in missiles, aircraft, and spacecraft) were well received by customers. Deliveries of several types of devices were made for test qualification on such systems as Apollo, Titan, and Saturn and six different ordnance devices are now in production for the Saturn V rocket system which will lift Apollo astronauts toward the moon.

## GENERAL PRECISION/LIBRASCOPE

General Precision, Inc.'s Librascope group is a leading manufacturer of ASW weapon control systems which are essentially large volume data processors capable of solving very complex problems in real-time. It also has a growing business in computer components and peripheral devices and precision optics.

### Weapon control systems

Volume production of weapon control systems for the Navy's SUBROC missile continued and a new contract extended production well into 1967.

New contracts were received for modification of existing weapons control systems to enable them to handle the new Mark 48 torpedo.

The company broadened its capabilities into areas related to ASW and received important study contracts to increase the effectiveness of new and existing ASW systems.

### Disc memory line expanded

Orders were received for new computer mass-memory, disc file systems (rotating devices on which massive amounts of information are stored for retrieval). One will be used in a nationally important research program at the Atomic Energy Commission's Lawrence Radiation Laboratory, where the disc file will enable the laboratory to implement "time-sharing" in its computer network, substantially speeding up its operations.

Disc memories also are in production for use in the Autodin military communication network.

### Contracts for plated-wire memory

Work continued on a new screen-like, woven, plated-wire memory system that provides light-weight, high speed operation at reasonable costs. These attributes make it attractive for military and space computer applications and development contracts have been received from the Massachusetts Institute of Technology and the Jet Propulsion Laboratory.

### Optics Technology Center

The Optics Technology Center provides research, development and fabrication services in optics and associated instrumentation. Work in progress includes optical devices for the Apollo mission simulator, photo-navigational viewfinders, periscopes and helicopter pilot sights.

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## TELE-SIGNAL CORPORATION

Tele-Signal Corporation makes data communications equipment used in such nationally important efforts as the Gemini and Apollo programs and the Air Force 495L Communications System.

Its products accept inputs from many teletype units, arrange them, modify them, and send them to the transmitter, to keep information flowing efficiently.

The company broadened its product line and expanded research activity into advanced communication fields.

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## RESEARCH AND DEVELOPMENT

Among General Precision's most valuable assets are the outstanding technical people who are engaged in a continuing program to expand the company's competence. Some of the results produced by their coordinated efforts follow:

An advanced doppler system, for which substantial customer funding is expected, has been designed for use with inertial guidance systems.

Current versions of a tactical landing and radar system (TALAR®) were placed under test by the Air Force and Navy and preliminary results have been excellent.

Added funding was received from the Office of Naval Research for work on high-power-output lasers.

The development of a new gas-bearing table resulted in a U.S. Army contract for a new photogrammetric system.

Newly developed visual and radar land mass simulation techniques contributed importantly to simulation awards.

Development of low cost, expendable gyros, platforms and accelerometers continued under customer support.

# Industrial Products

### Commercial Aircraft Simulators

General Precision/Link received a substantial number of orders for jet plane simulators from domestic airlines. Additionally, further inroads were made into international markets with orders from several new customers for simulators and associated training equipment. Contributing to the company's outstanding success was the widespread acceptance, previously noted in this report, for the new GP-4 digital computer.

The Corporation's British subsidiary, General Precision Systems, Ltd., also had success in selling simulators and ancillary equipment and is participating with Link in the manufacture of BAC-111 flight simulators. Orders were received for new color visual flight systems, which give flight crews in training a lifelike cockpit view of the ground and airfields for take-off and landing under all weather conditions. Deliveries were made and new orders were received for simulators for several models of executive jet aircraft such as the North American Sabreliner, Hawker-Siddeley HS125 and fan-jet Dassault Falcon.

### Industrial Controls and Closed-Circuit TV

New business received for its own products by the Industrial Controls Division continued to increase, reflecting the division's policy of emphasizing proprietary products. Increased orders were received from oil and pipeline companies for safety and conservation fittings for tank-farms and for Telepulse II tank-gaging systems.

Sales of GPL Division closed-circuit television equipment to industrial users increased. Several extensive installations in airport terminal areas were completed and other sales of multiple TV camera systems were made for use in conjunction with X-ray equipment and for bank curbside-teller installations. The division also introduced a laser velocimeter—a device which uses a laser beam to measure the length and the speed of rapidly moving materials without physical contact. Initial units have been purchased by major metal manufacturers for test.

### Communications Equipment

Tele-Signal Corporation's sales of commercial communications equipment increased in 1965, principally in export trade, and further increases are anticipated in 1966. The growing demand for Tele-Signal products in overseas markets is indicated by a license granted Racal Electronics, Ltd., England, to produce and sell Tele-Signal equipment. Racal is an internationally recognized company with extensive experience in the expanding field of global communications.

### Specialized Lighting and Theatre Equipment

The Strong Electric Corporation continued to offer the most complete line of projection lighting equipment for motion picture theatres. Development of Magdisc® traffic lane marker lights continued. A new unit was introduced using a fiberglass base to overcome the problems of salt-corrosion experienced by marker lights in highway installations. During 1966 initial distribution will be established in a number of states.

The theatre industry estimates that 200 new theatres will be built in each of the next three years and that approximately 30% of existing theatres will be refurbished. Both The Strong Electric Corporation and National Theatre Supply Company should participate in the requirements for theatre equipment and supplies that will be generated. In this connection, National Theatre Supply Company has already begun the job of equipping, over a period of several years, all the new theatres of one major chain. It has also introduced a new sound amplifier system for use with theatre projection equipment and has begun development, in co-operation with Graflex, Inc., of a new low-priced sound-head for its Simplex® motion picture projector.

### Computer Components and Peripheral Equipment

Rotating memories made by General Precision/Librascope have been well received by commercial customers. 10-inch, 14-inch and 24-inch discs built for special applications in 1965 will provide a larger proportion of sales in 1966. Such memories are also being used in special test equipment. Additionally, the company's 10-inch disc is the basic memory unit of a small and inexpensive credit-checking system used by banks and supermarkets which was introduced late in the year by a customer, Telecredit, Inc.

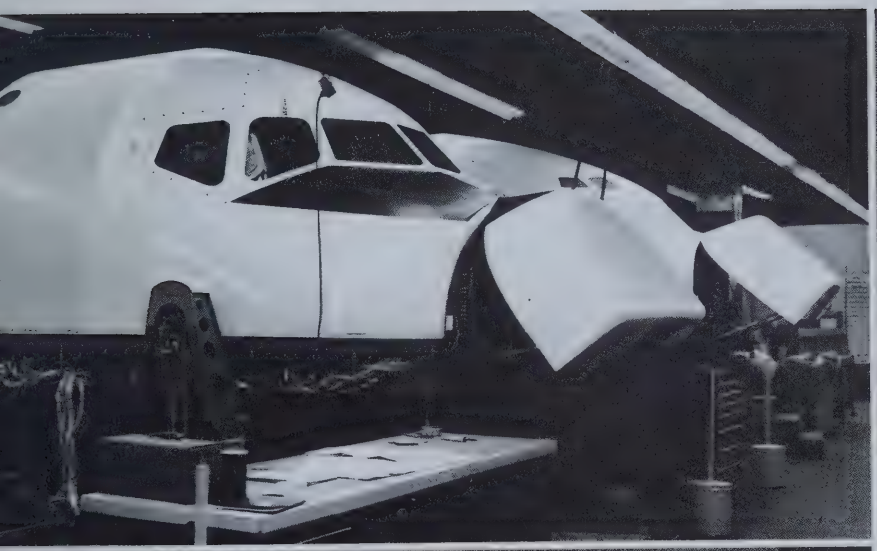
The licensing agreement with Toko, Inc. covering manufacture and sale of plated-wire computer memories has been expanded to include commercial applications.

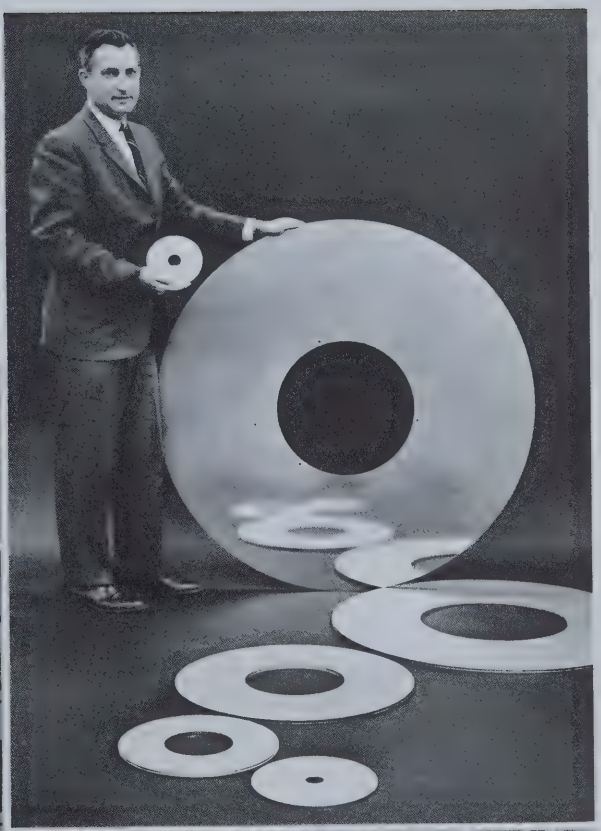
Sales of shaft encoders were increased and several new units, meeting increasing requirements for higher reliability and longer life, were introduced. One of the newest encoders has been designed for use with airborne transponders to meet new Federal Aviation Agency regulations for altitude-reporting systems on commercial and military aircraft. Sales of encoders were made for use with transponders designed for 707, 720 and DC-9 jet transports.

### Ocean Engineering

Early in 1965, the Corporation announced its entry into the commercial development of a broad range of underwater services and supporting systems through 25% ownership of a new company, Ocean Systems, Inc., organized with Union Carbide Corporation.

Ocean Systems, Inc. is establishing itself as a qualified supplier of diving and underwater construction services. As part of an extensive test diving program, two of the company's divers successfully completed the longest and deepest simulated dive ever attempted. At a pressure corresponding to a depth of 650 feet of sea water, the divers confirmed that man can perform effectively over an extended period of time at great depths.





Above: **Officer keeps an eye on New York City tunnel traffic via 25 GPL closed circuit TV cameras. Each camera monitors traffic approaching and leaving a section of tunnel.**

Top: **DC-9 simulators for commercial airlines under construction at Link.**

Upper right: **Librascope's computer disc memories are available in a variety of sizes to meet all needs—large or small.**

Right: **Strong Electric's Magdisc® lights offer unique new method of indicating traffic-lanes, provide improved safety on highway by day and by night.**

# Products for Education/Photography

### Education and Training

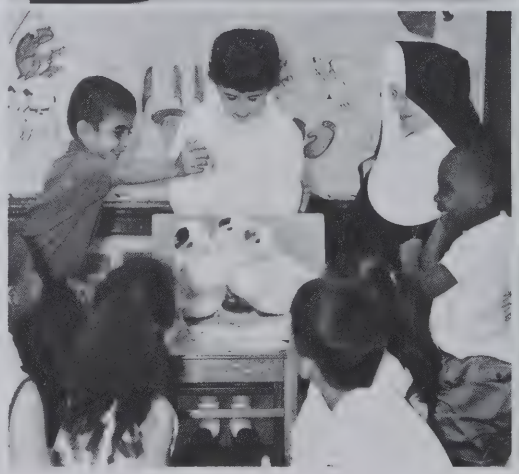
The growth of the school population, combined with an increasing number of federally funded education programs, will provide new opportunities for the General Precision companies supplying audiovisual equipment and instructional materials. Capabilities in the manufacture of training equipment as exemplified by General Precision/Link's pre-eminence in pilot training systems already have led to the development of auto-driver trainers. Graflex, Inc., Society For Visual Education, Inc. and GPL Division of General Precision/Aerospace introduced new products for education in 1965 and additional ones are now being planned for further market penetration.

### School Products Sales Increased

Sales of audiovisual equipment and instructional materials showed a good increase over 1964. New instructional materials produced by Society For Visual Education, Inc. were widely accepted for use by classroom teachers and administrators. The new line of Picture-Story Study Prints® has been very successful and is being expanded. These materials are being used in public and private schools throughout the country and they have special value for use in Operation Head Start programs for the training of pre-school children.

Graflex, Inc. experienced increased demand for its new 16mm motion picture sound projectors and also introduced a new overhead projector for classroom use. To augment Graflex's production of audiovisual equipment, Dorn Optics Corporation, a manufacturer of lenses, prisms and flat glass for projection equipment, was acquired.

GPL Division continued to be an important supplier of closed-circuit television equipment to schools. In November, a complete TV studio package was introduced for use in television programming within the school system (closed-circuit) or for broadcast over the air. Included is a new high-fidelity studio TV camera for live programming and a combined TV camera and Graflex® 16mm motion picture projector for film projection.



Above: **New camera by Graflex—one of many that can be put together from variety of lenses, bodies and backs.**

Left: **Society For Visual Education, Inc. Picture Story Study Prints® assist in teaching pre-school children.**

Left above: **Future motorists are introduced to safe-driving techniques on Link auto-driver trainers in classroom installation.**

### Driver Trainers

The Link Good-Driver Trainer is now being used in a growing number of school districts in many states. Production began in Italy through an affiliated company, Breda-Precision, S.p.A. Italy is the fourth country in which General Precision driving trainers are now made. General Precision Systems, Ltd. in England and Mitsubishi Precision Co., Ltd. in Japan are each manufacturing auto-driver trainers. The increasing worldwide emphasis being placed on driver training and the use of trainers as a means of reducing accidents indicate an excellent potential for these products.

### Camera Equipment

Graflex, Inc. introduced the xl Camera Systems which give the professional photographer or advanced amateur a choice of camera bodies, lenses, and backs, enabling him to assemble any one of a number of cameras to meet a variety of photographic needs. The highly successful introduction resulted in an increase in photo product sales over 1964 even though first shipments were made in November. The camera has created a substantial new growth potential for the company.

The company's Graphic® line of cameras continued to be a fixture with press and professional photographers. Their reliability and durability have created a continuing market for these cameras.

# GENERAL PRECISION EQUIPMENT CORPORATION

Tarrytown, New York

## COMPANIES AND PRODUCTS

### GENERAL PRECISION, INC.

Tarrytown, New York
*(Principal Operating Subsidiary)*

**AEROSPACE GROUP**
*Little Falls, N. J.*

**GPL DIVISION**
*Pleasantville, N. Y.*

Doppler radar navigation systems for aerospace applications; information handling and data display systems. Closed circuit television for industry, education and defense.

**KEARFOTT PRODUCTS DIVISION**
*Little Falls, N. J.*

Servomechanisms; airborne analog, digital, hybrid computers; ground support equipment; hydraulic and electromechanical aircraft and missile controls.

**KEARFOTT SYSTEMS DIVISION**
*Wayne, N. J.*

Systems for navigation, guidance and control for aerospace, land and seagoing vehicles. Precision inertial components—gyroscopes, accelerometers, platforms.

**LIBRASCOPE GROUP**
*Glendale, Calif.*

**COMPONENTS DIVISION**
*Glendale, Calif.*

Memory systems, encoders, and other digital equipment for computers and data processing systems.

**SYSTEMS DIVISION**
*Glendale, Calif.*

Computer systems and components for anti-submarine warfare weapon control systems; large-scale data processing systems and mass memories for command and control; precision optical systems.

**LINK GROUP**
*Binghamton, N. Y.*

**INDUSTRIAL CONTROLS DIVISION**
*Morton Grove, Illinois*

GPE Controls and Shand & Jurs industrial control systems; electronic, hydraulic, and mechanical components for industry.

**ORDNANCE DIVISION**
*Sunnyvale, Calif.*

Electro-explosive, electronic, and specialty magnetic ordnance systems and components.

**SYSTEMS DIVISION**
*Binghamton, N. Y.*

Flight, missile, and spacecraft simulators; visual systems; radar land mass simulators; data storage and retrieval systems; space information systems; range timing and instrumentation systems; vehicle detection and control devices; scientific programming services; auto driver trainers.

### OTHER DOMESTIC SUBSIDIARIES

**CHARACTER RECOGNITION CORP.**
*Binghamton, N. Y.*

Acquisition and licensing of patent rights relating to character recognition equipment.

**GRAFLEX, INC.**
*Rochester, N. Y.*

Photographic equipment; audiovisual equipment and instructional materials for education and industry; military precision products.

**Dorn Optics Corporation**
*Webster, N. Y.*

Lenses, prisms, and flat glass.

**Society For Visual Education, Inc.**
*Chicago, Ill.*

Instructional materials: filmstrips, slides, study prints, and related products.

**NATIONAL THEATRE SUPPLY COMPANY**
*Tarrytown, N. Y.*

Theatre equipment and supplies.

**THE STRONG ELECTRIC CORPORATION**
*Toledo, Ohio*

High-intensity light-projecting equipment for theatres, arenas, photomechanical reproduction, airport runways, highway guidance, environmental tests and military uses.

**TELE-SIGNAL CORPORATION**
*Hicksville, N. Y.*

Electronic equipment for long-distance telegraph, telephone and data communications.

### DOMESTIC AFFILIATES

**GENERAL PRECISION DECCA SYSTEMS, INC.**
*Pleasantville, N. Y.*

Owned jointly by General Precision Equipment Corporation and The Decca Navigator Co., Ltd.

**OCEAN SYSTEMS, INC.**
*New York, N. Y.*

Owned jointly by General Precision Equipment Corporation and Union Carbide Corporation.

### INTERNATIONAL OPERATIONS

#### Subsidiary

**GENERAL PRECISION SYSTEMS, LTD.**
*Aylesbury, Bucks, England*

Simulators, trainers, air traffic control systems, industrial control equipment.

#### Affiliates

**BREDA-PRECISION S.p.A.**
*Rome, Italy*

Owned jointly by General Precision, Inc. and Finanziaria Ernesto Breda S.p.A.

**MITSUBISHI PRECISION CO., LTD.**
*Tokyo, Japan*

Owned jointly by General Precision, Inc. and Mitsubishi Electric Corporation and other Mitsubishi companies.

**NIHON REGULATOR CO., LTD.**
*Tokyo, Japan*

Owned jointly by General Precision, Inc. and Japanese interests.

#### Licensees

**Canadian Aviation Electronics, Ltd.**
*Montreal, Canada*

**The Decca Navigator Company, Ltd.**
*London, England*

**Decca Radar, Ltd.**
*London, England*

**Dominicis S. A. de C. V.**
*Mexico City, Mexico*

**Ferranti Limited**
*Edinburgh, Scotland*
*Lancashire, England*

**Microtecnica S.p.A.**
*Turin, Italy*

**Racal Electronics Ltd.**
*Bracknell, England*

**The Rank Organisation**
Rank Pullin Controls
*Brentford, Middlesex, England*

**Reavell & Company, Ltd.**
*Ipswich, England*

**Regulator S.R.L.**
*Milan, Italy*

**Schoppe & Faeser GmbH**
*Minden, West Germany*

**Siemens & Halske A.G.**
*Munich and Braunschweig, West Germany*

**Société d'Applications Générales d'Eléctricité et de Mécanique (SAGEM)**
*Paris, France*

**Tokyo Aircraft Instrument Co., Ltd.**
*Tokyo, Japan*

**Whessoe Limited**
*Darlington, England*

GENERAL PRECISION EQUIPMENT CORPORATION

and subsidiary companies

# Consolidated Balance Sheet

| Assets | December 31, 1965 | 1964 |
|---|---|---|
| **CURRENT ASSETS:** | | |
| Cash | **$ 9,291,926** | $ 10,871,402 |
| Receivables, principally related to government contracts (Note 3) | **47,810,223** | 47,977,554 |
| Material, labor and other costs relating to contracts and jobs in process, less progress payments of $25,502,600 in 1965 and $33,053,854 in 1964 (Note 4) | **43,727,319** | 39,754,826 |
| Inventories, at cost or market whichever is lower | **10,845,477** | 10,059,830 |
| Other current assets | **5,196,643** | 2,589,086 |
| **Total current assets** | **116,871,588** | 111,252,698 |
| **INVESTMENTS, at cost** | **3,146,704** | 2,875,364 |
| **PROPERTY, PLANT AND EQUIPMENT, at cost less depreciation and amortization:** | | |
| Land | **2,663,123** | 2,797,571 |
| Buildings | **16,318,215** | 15,401,697 |
| Machinery and equipment | **34,552,532** | 34,107,799 |
| Leasehold improvements | **3,823,274** | 4,092,491 |
| Less — Depreciation and amortization | **(31,653,139)** | (29,085,805) |
| | **25,704,005** | 27,313,753 |
| **INTANGIBLE AND OTHER ASSETS, less amortization and reserve** | **6,830,558** | 9,254,844 |
| | **$152,552,855** | $150,696,659 |

## Liabilities and Stockholders' Equity

| | December 31, 1965 | 1964 |
|---|---|---|
| **CURRENT LIABILITIES:** | | |
| Notes and mortgages payable (Note 5) | **$ 20,099,500** | $ 21,106,979 |
| Accounts payable — trade | **11,394,620** | 10,065,757 |
| Federal income taxes (Note 2) | **242,102** | 1,329,462 |
| Provision for price redetermination | **2,932,056** | 2,271,260 |
| Dividend payable on Preferred Stock | **77,039** | 78,508 |
| Other accounts payable and accrued liabilities | **12,846,133** | 10,724,339 |
| **Total current liabilities** | **47,591,450** | 45,576,305 |
| **DEFERRED FEDERAL INCOME TAXES AND OTHER DEFERRED CREDITS** (Note 2) | **2,329,009** | 1,887,347 |
| **LONG-TERM NOTES AND MORTGAGES PAYABLE** (Note 5) | **25,542,963** | 28,736,938 |
| **STOCKHOLDERS' EQUITY:** | | |
| Capital Stock (Notes 6 and 7): | | |
| Preferred Stock, no par value, 500,000 shares authorized, 66,187 shares of $4.75 Series outstanding | **6,618,700** | 7,060,000 |
| Preference Stock, no par value, 1,500,000 shares authorized, 59,011 shares of $1.60 Series outstanding | **2,360,440** | 2,360,440 |
| Common Stock, $1 par value, 3,500,000 shares authorized, 1,643,101 shares outstanding at stated value | **17,412,783** | 17,412,783 |
| Paid-in surplus (Note 6) | **33,047,690** | 33,020,011 |
| Earned surplus, per statement attached (Note 5) | **18,076,991** | 15,354,374 |
| Less — Treasury stock — 1,312 shares of $4.75 Preferred Stock and 10,300 shares of Common Stock, at cost (Note 6) | **(427,171)** | (711,539) |
| **Total stockholders' equity** | **77,089,433** | 74,496,069 |
| **CONTINGENT LIABILITIES AND COMMITMENTS** (Note 9) | | |
| | **$152,552,855** | $150,696,659 |

GENERAL PRECISION EQUIPMENT CORPORATION

and subsidiary companies

# Consolidated Statement of Income and Earned Surplus

| | For the year ended December 31, 1965 | 1964 |
|---|---|---|
| **Sales and other income:** | | |
| Net sales | **$240,571,990** | $219,465,962 |
| Other income — net | **1,073,570** | 2,340,313 |
| | **241,645,560** | 221,806,275 |
| **Deductions:** | | |
| Material, labor and other costs and expenses | **221,780,776** | 203,860,104 |
| Depreciation and amortization | **5,268,347** | 6,369,096 |
| Contributions under employees' retirement plans | **2,193,256** | 2,110,247 |
| Interest | **2,690,453** | 2,921,837 |
| | **231,932,832** | 215,261,284 |
| **Income before federal income taxes** | **9,712,728** | 6,544,991 |
| **Federal income taxes or equivalent provision** (Note 2) | **4,626,000** | 2,770,000 |
| **Net income for the year** | **5,086,728** | 3,774,991 |
| **Earned surplus, beginning of year** | **15,354,374** | 19,461,343 |
| | **20,441,102** | 23,236,334 |
| **Deduct:** | | |
| Provision applicable to certain discontinued operations (Note 2) | — | 5,500,000 |
| Cash dividends: | | |
| $4.75 Preferred Stock | **310,434** | 317,573 |
| $1.60 Preference Stock | **94,418** | 94,418 |
| Common Stock—$1.20 per share | **1,959,259** | 1,969,969 |
| | **2,364,111** | 7,881,960 |
| **Earned surplus, end of year** (Note 5) | **$ 18,076,991** | $ 15,354,374 |

GENERAL PRECISION EQUIPMENT CORPORATION

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# Notes to Consolidated Financial Statements

## for the Year ended December 31, 1965

### NOTE 1 – PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of all subsidiaries of the Corporation operating in the United States. The accounts of foreign subsidiaries are not significant in relation to the consolidated accounts.

### NOTE 2 – FEDERAL INCOME TAXES:

Because of available deductions from taxable income relating to business-computer operations, which were sold or terminated during the year, no federal income taxes are estimated to be payable for 1965. For financial accounting purposes, estimated loss was reserved in prior years by charges to earned surplus account. Since the surplus charges were calculated net of related estimated future tax reductions commencing in 1962, net income for financial accounting purposes for the years affected has been determined by including charges for taxes ($4,626,000 in 1965) equivalent to the full amounts which ordinarily would have been payable. For 1965 the company anticipates refund of $564,000 of prior year taxes paid, and anticipates tax offset of approximately $1,000,000 in 1966 from residual loss carry-forward.

Tax charges for 1965 and 1964 include deferred amounts of $229,000 and $223,000, respectively, arising from certain deductions currently allowable for tax purposes in excess of book amounts. The company takes investment credit on qualifying fixed asset additions into income, by reduction of tax provisions, relative to lives of the assets, to the extent that its tax position for the year permits utilization thereof. No reduction for investment credit is reflected in 1965 because, as indicated, no tax is estimated to be payable; the 1964 charge for taxes was reduced $230,000 for investment credit availed of for that year.

### NOTE 3 – RECEIVABLES:

Receivables include notes and contracts receivable of $3,931,117 in 1965 and $5,153,910 in 1964 of which instalments maturing later than one year totaled approximately $1,377,602 and $2,016,000, respectively, in accordance with the usual practice of finance companies. Notes receivable also include $1,165,259 in 1965 and $1,674,992 in 1964 representing the Corporation's equity in customers' notes receivable sold. Unearned financing charges of $139,980 in 1965 and $152,249 in 1964 have been deducted from the related notes receivable balances.

### NOTE 4 – MATERIAL, LABOR AND OTHER COSTS RELATING TO CONTRACTS AND JOBS IN PROCESS:

Contracts and jobs in process are stated at cost not in excess of estimated net realizable value. Under "cost-plus-fixed-fee" contracts, work in process is relieved of cost and profits are recorded as work is performed. Sales and profits under "fixed-price" contracts, which may or may not be subject to price redetermination, are not recorded until the units contracted for are delivered, and the profits recorded take into account estimated refunds, if any, under price redetermination clauses. Costs in excess of tentative billing prices of material shipped and billed under government contracts which permit retroactive price increases are carried in work in process; the billings in respect of such retroactive price increases and related costs are not recorded through income until the selling prices are redetermined. Profits taken into income during performance of certain contracts containing incentive clauses include the portion of incentive amounts reasonably determined to be attainable.

### NOTE 5 – NOTES AND MORTGAGES PAYABLE:

Notes and mortgages payable at December 31, 1965, representing obligations principally to banks and insurance companies, comprised the following:

| | *Long-term* | *Current* |
|---|---|---|
| Notes under loan agreements, 4¼% to 6%, maturing 1969 to 1976 with annual repayments required of $3,017,000 | $23,741,000 | $ 3,017,000 |
| Short-term 5% notes outstanding under a revolving credit agreement expiring December 31, 1967 (maximum credit $40,000,000) | | 17,000,000 |
| Sundry notes and mortgages | 1,801,963 | 82,500 |
| | $25,542,963 | $20,099,500 |

Provisions of the loan and revolving credit agreements and changes thereto contain, among other things, restrictions as to dividend payments with such restrictions relating to consolidated net income and to consolidated net current assets. Based upon computations prescribed in the agreements, the consolidated earned surplus at December 31, 1965 included approximately $6,454,000 which was unrestricted for the payment of dividends on Common Stock and $10,669,000 unrestricted for the payment of dividends on Preferred and Preference Stock.

### NOTE 6 – CERTAIN PROVISIONS OF PREFERRED AND PREFERENCE STOCK:

The $4.75 Cumulative Preferred Stock has an involuntary liquidation preference of $100 per share, and a voluntary liquidation preference of, and is redeemable at the option of the Corporation at, $103 per share to June 16, 1970 and at $102 per share thereafter. This Series is entitled to a sinking fund to be set aside on or before May 1 of each year in an amount sufficient to redeem on the following June 15 at $100 per share a number of shares equal to 4% of the number of shares issued prior to the sinking fund date. The increase of $27,679 in paid-in surplus during 1965 relates to retirement of Preferred Stock.

The $1.60 Cumulative Convertible Preference Stock has a voluntary and involuntary liquidation preference of $40 per share, is redeemable at the option of the Corporation at $42 per share and is convertible, subject to certain conditions, into Common Stock at the rate of two-thirds of a share of Common Stock for each share of $1.60 Cumulative Convertible Preference Stock, the conversion rate being subject to adjustment in certain events. An aggregate of 39,341 shares of Common Stock were reserved at December 31, 1965 for such conversion rights on the Preference Stock outstanding at that date.

### NOTE 7 – STOCK OPTIONS:

Options outstanding at December 31, 1965 under option agreements entered into with certain officers and employees of the Corporation and its subsidiaries are as follows:

| *Date of option agreement* | *Number of shares* | *Per share* | *Total* |
|---|---|---|---|
| July 14, 1960 | 1,866 | $52.50 | $ 97,965 |
| July 5, 1961 | 5,327 | 65.50 | 348,918 |
| July 2, 1962 | 9,298 | 30.00 | 278,940 |
| July 1, 1963 | 3,294 | 36.50 | 120,231 |
| July 1, 1964 | 455 | 27.50 | 12,512 |
| July 1, 1965 | 5,545 | 27.75 | 153,874 |
| | 25,785 | | $1,012,440 |

The respective option prices are at least 95% (100% with respect to 1964 and 1965 options) of the market value on the dates of the agreements. Subject to certain conditions, these options are exercisable in equal annual instalments over five years (four years with respect to 1964 and 1965 options) commencing approximately one year from date of grant. During the year no options were exercised and options to purchase 46,280 shares were terminated by their terms. See Note 10 for comments on stock option plan adopted in 1966.

**NOTE 8 – EXECUTIVE COMPENSATION PLAN:**

The Corporation and its subsidiaries have an Executive Compensation Plan approved by the stockholders in 1960, and amended in 1965, and administered by a committee of directors who do not participate therein, whereunder officers and employees may be awarded additional compensation in the form of variable salaries (related to income) and incentive compensation (related to income and return on invested capital). Additional compensation awarded under the Plan, net of award cancellations, amounted to $820,900 in 1965 and $509,856 in 1964. Under certain conditions options for the purchase of Common Stock of the Corporation may be granted under the Executive Compensation Plan; options to purchase 5,545 shares were granted in 1965 (see Note 7).

**NOTE 9 – CONTINGENT LIABILITIES AND COMMITMENTS:**

A substantial portion of sales relates to government business and is subject to renegotiation proceedings. The Renegotiation Board has advised the Corporation that, upon review, excess profits were not realized for 1964 and prior years. It is the opinion of management that no refunds will be required for the year ended December 31, 1965 and no provision has been made therefor.

In connection with litigation pending against the Corporation and its subsidiaries, one action alleges violations of the antitrust laws and damages of $1,250,000 which the plaintiff seeks to have trebled; counsel have advised that in their opinion the defense of such litigation should be successful although the final outcome cannot be forecast.

Annual rental payments on material leases of real property amount to $1,855,000 of which $605,000 represents leases expiring by December 31, 1968 and the balance to longer term leases expiring at various dates up to 1991. Some of these leases require payment of real estate taxes and other expenses. The Corporation and its subsidiaries have employment agreements with certain officers and retired officer consultants.

**NOTE 10 – CERTAIN EVENTS SUBSEQUENT TO DECEMBER 31, 1965:**

The Boards of Directors of the Corporation and Controls Company of America have agreed upon a proposal of merger, subject to approval by the stockholders of both companies. The proposed merger provides for the transfer of substantially all of the assets of Controls Company to a newly organized subsidiary of the Corporation in exchange for 800,703 shares of Common Stock and 266,901 shares of $1.60 Cumulative Convertible Preference Stock of the Corporation and the assumption by the new subsidiary of substantially all of the obligations and liabilities of Controls Company. Pursuant to the terms of the proposed merger, the Corporation will also issue 9/16 of one share of Common Stock and 3/16 of one share of $1.60 Preference Stock in respect of each share of Controls Company Common Stock issued upon the exercise of options between the date of formal agreement and the date the assets are transferred and will assume the obligations under stock options of Controls Company outstanding at the date of such transfer.

Subject to approval by stockholders, the Board of Directors has approved a new stock option plan for employees and has granted options thereunder for 77,250 shares of Common Stock. The Corporation has reserved an aggregate of 80,000 shares of Common Stock for issuance under the plan.

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**TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF GENERAL PRECISION EQUIPMENT CORPORATION**

In our opinion, the accompanying consolidated balance sheet and consolidated statement of income and earned surplus present fairly the consolidated financial position of General Precision Equipment Corporation and its subsidiaries at December 31, 1965 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the acounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to obtain confirmation of certain receivables from the United States Government by direct correspondence, but we satisfied ourselves as to these amounts by means of other auditing procedures.

**PRICE WATERHOUSE & CO.**

60 Broad Street, New York, N. Y.
February 23, 1966

## DIRECTORS

**Robert L. Clarkson**
Chairman of the Board,
Smith, Kirkpatrick & Co., Inc.

**Howard K. Halligan**
Partner, Cyrus J. Lawrence & Sons

**Fred D. Herbert, Jr.**
Vice President of the Corporation, Group President of Aerospace Group of General Precision, Inc.

**Arnold R. LaForce**
President, Central Securities Corporation

**Philip LeBoutillier, Jr.**
Vice President, Clark, Dodge & Co., Inc.

**Edwin A. Link**
Consultant to General Precision, Inc.

**John C. Maxwell**
Partner, Tucker, Anthony & R. L. Day

**James W. Murray**
Chairman of the Board of the Corporation

**Hermann G. Place**
Consultant to the Corporation

**Robert T. Rinear**
Executive Vice President and General Counsel of the Corporation

**Donald W. Smith**
President of the Corporation

**Philip B. Taylor**
Consultant

**Gaylord C. Whitaker**
Chairman of the Board of Graflex, Inc.

## OFFICERS

**James W. Murray**
Chairman of the Board and Chief Executive Officer

**Donald W. Smith**
President and Chief Operating Officer

**Robert T. Rinear**
Executive Vice President and General Counsel

**Raymond L. Garman**
Vice President, Engineering and Research

**Fred D. Herbert, Jr.**
Vice President

**Rolande H. Richardson**
Treasurer and Assistant Secretary

**Edwin D. Merrill**
Controller and Assistant Treasurer

**Earle B. Henley, Jr.**
Secretary

**Auditors**
Price Waterhouse & Co.

**Counsel**
Nixon, Mudge, Rose, Guthrie & Alexander

**Transfer Agent**
The Chase Manhattan Bank, New York City

**Registrar**
Morgan Guaranty Trust Company of New York, New York City

### ANNUAL MEETING

The annual meeting of stockholders will be held in the Biltmore Hotel, Madison Avenue at 43rd Street, New York City, on Wednesday, May 18, 1966 at eleven o'clock in the forenoon.